

Sustainable Finance in Emerging Economies: A Comprehensive Review of ESG Accounting in MENA Countries

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Abstract

This study systematically reviews the fragmented body of literature examining Environmental, Social, and Governance (ESG) accounting and finance within the Middle East and North Africa (MENA) region. Analysing the empirical and theoretical foundations of sustainable accounting up to 2026, the paper uncovers key structural trends. First, the value relevance of ESG is proxy-dependent; long-term market indicators (Tobin's Q) reward comprehensive environmental (E) and social (S) disclosures, while short-term accounting metrics (ROA) often reflect immediate compliance costs. Second, the governance (G) pillar exhibits mixed results due to heavy ownership concentration across the region. Third, internal board architecture (independence and gender diversity) and external audit quality (Big Four mandates) serve as critical filters that curb greenwashing, reduce information asymmetry, and optimize capital costs. Finally, the review highlights a structural convergence between modern ESG frameworks and Islamic banking ethics (Maqasid al-Shariah). By contrasting the hyper-capitalized Gulf Cooperation Council (GCC) markets with resource-scarce non-GCC economies, this manuscript maps critical methodological and geographic gaps, delivering a comprehensive future research agenda and actionable insights for regional regulators, investors, and corporate strategists.

Keywords: ESG Accounting; MENA Region; Corporate Governance; Islamic Finance.

1. Introduction

1.1 Context and Background

Over the past two decades, the integration of Environmental, Social, and Governance (ESG) criteria into corporate reporting and investment strategies has evolved from a marginal, values-driven niche into a fundamental pillar of global capital market architecture. Globally, institutional investors, regulatory bodies, and accounting standard-setters increasingly view non-financial disclosures not merely as discretionary exercises in corporate altruism, but as material indicators of systemic risk management, operational resilience, and long-term value creation. This global paradigm shift has forced a profound re-evaluation of corporate transparency, necessitating sophisticated accounting frameworks capable of quantifying and reporting socio-environmental externalities alongside traditional financial statements (Elalfy et al., 2025; Rashwan et al., 2025).

While the foundational body of literature tracing the economic consequences of ESG accounting has historically focused on mature Western economies, the geographic focus of sustainable finance research is undergoing a critical reorientation. Attention is increasingly turning toward emerging markets, among which the Middle East and North Africa (MENA) region represents one of the most structurally unique, geopolitically vital, and institutionally dynamic landscapes. Comprising an economically heterogeneous mix of resource-rich Gulf Cooperation Council (GCC) monarchies and resource-scarce Levant and North African states, the MENA region has traditionally been characterized by state-dominated capital structures, concentrated family ownership blocks, relatively weak minority shareholder protections, and an overwhelming economic reliance on fossil fuels and carbon-intensive operations. Consequently, the corporate landscape in this region has historically been associated with lower levels of voluntary disclosure and heightened information asymmetry relative to its Western counterparts (Attia & Almoneef, 2025).

Despite these historical antecedents, the contemporary MENA region is undergoing a sweeping, state-led institutional metamorphosis. Driven by the existential threat of global decarbonization and the acute domestic necessity to diversify away from oil rentier economies, sovereign governments across the region have launched aggressive National Transformation Plans (NTPs). Prominent frameworks such as Saudi Arabia's Vision 2030, the United Arab Emirates' Green Growth Strategy, and Egypt's Sustainable Development Strategy (SDS) Vision 2030 have explicitly embedded sustainability, green infrastructure, and social equity into national economic agendas. (Abu Khalaf et al., 2025)

To operationalize these macroeconomic visions within capital markets, regional regulatory bodies—including the Saudi Capital Market Authority (CMA), the UAE Securities and Commodities Authority (SCA), and the Egyptian Financial Regulatory Authority (FRA)—have progressively transitioned from encouraging voluntary sustainability reporting to mandating structured ESG disclosures for listed entities. Furthermore, regional stock exchanges, such as the Saudi Exchange (Tadawul), the Dubai Financial Market (DFM), and the

Egyptian Exchange (EGX), have established dedicated ESG reporting guidelines, launched sustainability indices, and aligned their frameworks with international standards like the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB). This top-down regulatory enforcement has fundamentally disrupted the traditional corporate accounting paradigm in MENA, forcing firms to rapidly internalize ESG metrics to secure domestic legitimacy and maintain access to global pools of institutional capital. (Rashwan et al., 2025)

1.2 The Problem Statement

Despite the exponential surge in global academic literature exploring the financial implications of sustainability disclosures, the empirical evidence regarding the economic consequences of ESG accounting within the specific context of the MENA region remains deeply fragmented, localized, and contradictory. The existing body of knowledge is plagued by three distinct, interlocking theoretical and empirical tensions that inhibit a unified understanding of the ESG-finance nexus in this territory (Pedersen et al., 2021; Yoo et al., 2024).

First, there is a profound lack of consensus regarding the financial directionality of ESG adoption. On one hand, a faction of emerging-market research aligns with the *value-creation hypothesis*, arguing that robust ESG accounting acts as a powerful signalling mechanism that mitigates severe information asymmetries, enhances corporate reputation, reduces the cost of debt and equity capital, and ultimately maximizes market valuation. On the other hand, an equally compelling body of literature supports the *cost-incurring hypothesis*. This perspective posits that in developing economies, where institutional voids are prevalent and capital markets are still maturing, the extensive financial outlays required to implement comprehensive ESG tracking systems represent an agency problem. From this viewpoint, managers deploy corporate resources on non-value-adding social initiatives to enhance their personal reputational capital, thereby penalizing short-term profitability, draining operational liquidities, and destroying shareholder wealth (HomRoy et al., 2022; Homroy et al., 2023).

Second, the structural heterogeneity within the MENA region itself introduces significant contextual noise that single-country studies fail to reconcile. The region is structurally bifurcated between highly capitalized, rentier GCC economies and capital-scarce, debt-burdened non-GCC states. In the GCC, corporate ESG initiatives are heavily capitalized by state funds and integrated into sovereign wealth strategies, rendering compliance a matter of national strategic alignment. Conversely, in non-GCC MENA states, firms face severe macroeconomic volatility, currency fluctuations, and limited access to public subsidies, meaning that ESG investments compete directly with survival-level operational expenditures. By treating the MENA region as a monolithic entity or drawing sweeping conclusions from isolated single-country datasets (e.g., exclusively focusing on Saudi Arabia or Egypt), the current literature fails to provide a nuanced, cross-border comparative understanding of how varying levels of institutional development, economic rent dependency, and capital market maturity moderate the ESG-performance relationship.

Third, the literature exhibits a critical gap concerning the internal and external governance mechanisms that validate or compromise ESG reporting quality. In the MENA corporate ecosystem, which is characterized by high ownership concentration, prevalent state equity, and influential family networks, the potential for opportunistic management behaviour is elevated. In this environment, ESG disclosures can be manipulated as a decoupling tool—commonly referred to as greenwashing—where corporate narratives are intentionally disconnected from actual substantive environmental or social performance. (Li et al., 2021)

The degree to which internal governance attributes (such as board independence, gender diversity, and audit committee expertise) and external assurance qualities (such as Big Four audit mandates) successfully curb this opportunism or act as genuine facilitators of high-fidelity ESG accounting remains highly contested and structurally under-reviewed

Furthermore, the unique co-existence of conventional financial structures and Islamic banking architectures introduces a distinct socio-religious governance layer. The interaction between Shariah compliance principles—which inherently mandate ethical stewardship and social justice—and modern, Western-centric ESG accounting frameworks represents a profound theoretical intersection that has not yet been systematically synthesized within mainstream accounting and finance literature.

1.3 Research Objectives and Questions

To address these critical voids, this manuscript systematically synthesizes, categorizes, and critically evaluates the extant empirical and analytical literature focused on ESG accounting and finance across the MENA region. By mapping the evolutionary trajectory of this research corpus up to the year 2026, this study seeks to dismantle the fragmented nature of current findings and establish a unified, conceptually rigorous analytical framework. To achieve this overarching goal, the review is guided by three primary, interconnected research questions:

- RQ1 (Theoretical and Methodological Mapping): What are the predominant theoretical frameworks, empirical methodologies, research designs, and metric proxies utilized in the current literature to examine ESG accounting and its financial outcomes within the specific institutional landscape of MENA countries?
- RQ2 (The ESG-Value-Risk Nexus): How, and under what institutional conditions, does corporate ESG disclosure or performance alter corporate financial performance (CFP), market-based valuation, systemic risk exposure, and the cost of capital (both equity and debt) across GCC and non-GCC MENA states?
- RQ3 (Governance, Assurance, and Religious Modulation): How do internal corporate governance structures, external audit quality, and the unique tenets of Islamic finance and Shariah compliance moderate, enhance, or constrain the authenticity and economic consequences of ESG accounting disclosures in the region?

By addressing these questions, this study moves beyond a descriptive summary of past papers. It provides a critical, analytical assessment of the structural bottlenecks, data limitations, and theoretical assumptions that have shaped the literature, thereby clearing a pathway for future empirical lines of inquiry.

1.4 Intended Contributions

This manuscript makes several distinct and substantial contributions to the global and regional literature on corporate sustainability, accounting disclosures, and emerging-market finance.

- **First Contribution (Contextualizing Institutional Theory):** This study contributes to the advancement of institutional theory, stakeholder theory, and legitimacy theory by contextualizing them within a highly unique socio-political environment. Unlike Western markets where ESG disclosure is largely driven by market forces and grassroots consumer activism, the MENA region exhibits a uniquely state-centric, top-down regulatory enforcement model. By evaluating how these theories operate when embedded within national economic diversification visions (e.g., Saudi Vision 2030), this paper provides a more sophisticated framework for understanding corporate disclosure behaviour in state-led emerging market economies.
- **Second Contribution (Granular Disaggregation of the MENA Region):** This review breaks the conventional academic habit of treating the MENA region as a homogenous block. By systematically comparing the empirical outcomes of hyper-capitalized, resource-rich GCC markets against capital-constrained, resource-scarce non-GCC economies, we provide a granular, dual-track perspective. This disaggregation reveals how macro-level economic realities like sovereign wealth support, state ownership, and resource dependency fundamentally alter the micro-level corporate incentives for sustainable accounting.
- **Third Contribution (Deconstruction of the ESG Pillar Dynamics):** This paper contributes to the accounting literature by moving past aggregated ESG scores to deconstruct the individual financial materiality of the Environmental (E), Social (S), and Governance (G) pillars within the regional context. By clarifying which specific dimensions of sustainability yield immediate market premiums or risk-reduction benefits—and which dimensions remain economically neutral or costly due to localized institutional arrangements—this study provides precise insights into the shifting dynamics of value relevance.
- **Fourth Contribution (Synthesis of the Socio-Religious and Audit Interface):** This manuscript represents one of the first comprehensive attempts to synthesize the intersection of external audit quality, internal corporate governance architectures, and Islamic financial ethics within a unified ESG literature review. It explicitly charts how traditional accounting control mechanisms (like Big Four auditors) interact with socio-

religious governance structures to validate non-financial disclosures, offering a completely fresh perspective on the global debate surrounding greenwashing and disclosure authenticity.

- Fifth Contribution (Practical Value for Stakeholders): Finally, this review offers direct, practical utility for a broad spectrum of capital market participants. For international and domestic institutional investors, it delivers a clear roadmap of the risk-mitigation profiles of regional firms. For corporate executives and chief financial officers, it provides evidence-based justifications for integrating sustainable practices into corporate strategies. Most importantly, for regional policymakers, central banks, and stock exchange authorities, it highlights existing regulatory gaps, data transparency deficits, and enforcement challenges. This evidence is critical for designing next-generation, audited, and globally synchronized mandatory ESG reporting frameworks that can accelerate the region's structural transition toward sustainable, non-carbon-dependent economic growth.

1.5 Structure of the Remaining Manuscript

To ensure a logical and transparent analytical flow, the remainder of this manuscript is organized into five subsequent sections.

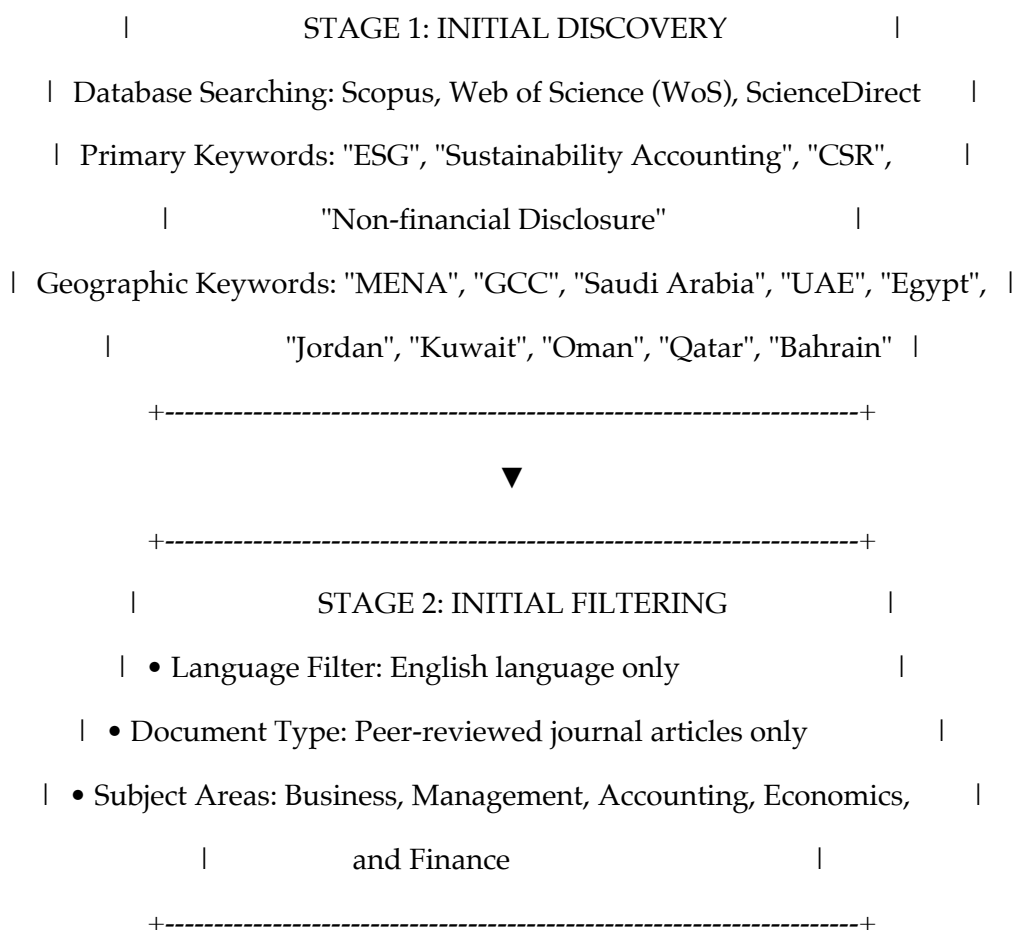
- Section 2 (Methodology & Theoretical Frameworks) outlines the systematic literature review (SLR) protocol utilized to construct our research corpus, detailing the explicit database search strings, inclusion/exclusion matrices, and geographical distributions. It also explores the core theoretical frameworks—such as legitimacy, stakeholder, institutional, agency, and signalling theories—that underpin the regional literature.
- Section 3 (Core Thematic Clusters of the Literature) forms the empirical core of the paper, offering a deep-dive critical analysis of the existing literature split into three core themes: the direct ESG-financial performance and risk nexus; the moderating roles of internal board structures and external audit quality; and the specific dynamics introduced by conventional versus Islamic banking models.
- Section 4 (Critical Gaps & A Future Research Agenda) synthesizes the methodological limitations, geographic imbalances, and data constraints identifying in the current literature, and outlines a comprehensive series of future research trajectories.
- Section 5 (Conclusion) brings the paper to a close by summarizing the core insights of the review and offering structured, actionable policy recommendations for regulators, auditors, and corporate leaders across the MENA region.

2. Methodology and theoretical frameworks

2.1 Methodology (The Systematic Literature Review Protocol)

To ensure empirical transparency, replicability, and minimization of researcher bias, this study employs a rigorous Systematic Literature Review (SLR) protocol. This protocol strictly adheres to the preferred reporting items for systematic reviews guidelines, adapted specifically for the institutional and financial reporting disciplines within accounting research. (Li et al., 2021; Yilmaz, 2022)

A systematic approach is uniquely suited for this manuscript because the literature surrounding Environmental, Social, and Governance (ESG) criteria within the Middle East and North Africa (MENA) region is expanding rapidly yet remains heavily fragmented across diverse banking, corporate finance, and auditing journals. By executing a transparent, multi-stage filtration process, this methodology maps the evolutionary trajectory of sustainable accounting scholarship in the region up to the year 2026. (Aroul et al., 2022; X. Zhang & Jung, 2023)





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| STAGE 3: TITLE & ABSTRACT SCREENING |

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- | • Explicit exclusion of purely qualitative essays, non-peer-reviewed |
| editorial notes, and unindexed working papers. |
- | • Core Focus Check: Must explore ESG/CSR metrics alongside |
| accounting, auditing, or financial metrics. |

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| STAGE 4: FULL-TEXT ELIGIBILITY EVALUATION |

| |

- | • Geographic Validation: Dataset must draw empirical evidence from |
| at least one valid MENA or GCC nation state. |
- | • Metric Validation: Must deploy structured quantitative or mixed |
| methodologies investigating corporate financial outcomes. |

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| STAGE 5: FINAL INCLUSION |

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- | Final Analytical Synthesis Corpus organized by thematic cluster, |
| econometric design, regional focus, and theoretical alignment. |

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2.1.1 Database Selection and Search Strings

The initial identification phase involved an extensive search across three leading academic databases: Scopus, Web of Science (WoS) Core Collection, and ScienceDirect. These engines were selected to guarantee comprehensive coverage of high-ranked, peer-reviewed international accounting, auditing, and business economics journals (e.g., fields indexed within the Association of Business Schools list or the Chartered Association of Business Schools).

The search query was constructed using Boolean operators to bridge two distinct dimensions: sustainability accounting metrics and the specific geographic boundaries of the MENA territory. The exact, standardized search string executed across the titles, abstracts, and keywords of these databases was as follows:

("ESG" OR "Environmental, Social, and Governance" OR "Sustainability Accounting" OR "Sustainability Disclosure" OR "Corporate Social Responsibility" OR "CSR Reporting" OR "Non-financial Reporting") AND ("MENA" OR "Middle East" OR "North Africa" OR "GCC" OR "Gulf Cooperation Council" OR "Saudi Arabia" OR "United Arab Emirates" OR "UAE" OR "Egypt" OR "Jordan" OR "Kuwait" OR "Oman" OR "Qatar" OR "Bahrain") AND ("Financial Performance" OR "Firm Value" OR "Cost of Capital" OR "Cost of Debt" OR "Tobin's Q" OR "ROA" OR "ROE" OR "Risk" OR "Audit Quality" OR "Corporate Governance")

2.1.2 Inclusion and Exclusion Criteria

To refine the initial database outputs into a highly specialized analytical corpus, a rigorous set of inclusion and exclusion criteria was implemented:

- Criterion 1 (Document Type): Only fully peer-reviewed academic journal articles were included. Research notes, book chapters, conference proceedings, un-refereed working papers, and doctoral dissertations were explicitly excluded to preserve the high-ranked academic rigor required for this review.
- Criterion 2 (Language): The scope was limited strictly to manuscripts published in the English language, as English serves as the dominant medium for international financial accounting scholarship and high-ranked journal indexing.
- Criterion 3 (Thematic Focus): Included articles had to explicitly investigate the interface between ESG/CSR metrics and corporate financial outcomes, risk structures, auditing qualities, or corporate governance traits. Studies addressing environmental engineering, macro-level climate modeling, or purely socio-political policy without corporate accounting or market proxies were excluded.
- Criterion 4 (Geographic Framework): The empirical dataset of the study had to draw its sample from at least one nation-state formally recognized within the MENA boundaries, with a specific analytical focus on comparing or synthesizing GCC (Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain) and non-GCC contexts (e.g., Egypt, Jordan).

2.1.3 Data Extraction, Categorization, and Synthesis

The structural filtration process was conducted in sequential phases. First, duplicates across the databases were systematically purged.

Second, titles and abstracts were screened against the core thematic boundaries. This phase eliminated studies that mentioned "sustainability" or "governance" in an abstract sense without deploying corporate finance metrics.

Third, the remaining manuscripts underwent full-text evaluation to confirm that their datasets, econometric proxies, and institutional contexts explicitly fit the required criteria.

The finalized analytical corpus was then extracted into a structured Excel matrix. This database organized each paper by:

- Complete bibliographic data (Authors, Year, Journal).
- Specific geographic sample and temporal coverage (e.g., cross-country MENA panel vs. single-country analysis).
- Primary econometric methodologies and modelling architectures (e.g., Ordinary Least Squares (OLS), fixed/random effects, System Generalized Method of Moments (GMM), or Structural Equation Modelling).
- Dependent, independent, control, and moderating variables used.
- Key empirical findings and underlying theoretical explanations.

2.2 Theoretical Frameworks in MENA Research

A defining attribute of the ESG accounting literature within the MENA region is its heavy reliance on a multi-theoretical approach. Unlike traditional corporate finance research, which often looks at problems through a single theoretical lens, researchers investigating non-financial disclosures must navigate both market-driven incentives and complex socio-political pressures.

Because the MENA region is experiencing top-down regulatory changes, shifting societal values, and unique religious financial systems, scholars frequently blend multiple theories to fully capture corporate disclosure behaviour. The core theoretical frameworks identified across the corporate sustainability literature in this region are detailed below. (HomRoy et al., 2022; Pedersen et al., 2021)

2.2.1 Stakeholder Theory

Stakeholder theory provides a foundational framework for analysing why corporate managers allocate scarce financial capital toward environmental and social preservation initiatives. Developed as a direct challenge to strict shareholder primacy, this theory posits that

a corporation's long-term survival and financial viability depend on its capacity to manage, satisfy, and balance the diverse expectations of both internal and external stakeholders. These include employees, customers, suppliers, local communities, government regulators, and non-governmental organizations. (Yoo et al., 2024)

In the context of the MENA region, stakeholder theory has undergone an important analytical shift. Historically, regional firms prioritized a narrow group of powerful stakeholders: government bodies, royal family networks, and majority institutional shareholders. However, as MENA economies seek to integrate into global capital markets, the definition of a "critical stakeholder" has expanded dramatically.

To attract international institutional investors, regional firms must respond to the demands of global fund managers who mandate comprehensive ESG accounting structures. Consequently, stakeholder theory is increasingly used in the literature to explain how MENA firms adopt structured sustainability disclosures as a strategic tool. This helps them balance domestic socio-economic commitments with the rigorous governance expectations of international capital providers. (Almubarak et al., 2023; X. Zhang & Jung, 2023)

2.2.2 Legitimacy Theory

Legitimacy theory operates on the core assumption that corporations do not exist in a vacuum. Instead, they operate under an implicit "social contract" with the broader society in which they are embedded. This theory implies that a firm's growth and survival depend on society perceiving its operations as morally acceptable, socially responsible, and legally compliant. When a perceived gap emerges between corporate behaviour and societal values—known as a legitimacy gap—society can revoke the firm's social contract. This can lead to increased regulatory scrutiny, customer boycotts, or restricted access to capital markets.

Within the MENA literature, legitimacy theory is the most frequently cited framework for explaining voluntary or narrative sustainability disclosures. The corporate landscape in MENA is dominated by highly visible, carbon-intensive industries such as oil extraction, petrochemical production, mining, and heavy manufacturing. These sectors generate significant environmental externalities, making them highly vulnerable to public and international criticism.

Scholars use legitimacy theory to show that environmental and social disclosures across the GCC function largely as a defensive communication strategy. By providing extensive information on carbon-reduction strategies, water management, and community investment, resource-dependent firms attempt to neutralize public concerns, mitigate political risks, and bridge potential legitimacy gaps. This helps ensure their continued operational survival in a changing global economy. (Colak et al., 2020; Edmans, 2023; Verheyden et al., 2016)

2.2.3 Institutional Theory

Institutional theory looks beyond immediate market efficiencies to explore how macro-level social and regulatory pressures shape corporate actions. It posits that organizational structures and accounting practices homogenize over time within a specific field. This process, known as institutional isomorphism, occurs as firms strive for systemic acceptance rather than pure operational optimization. Institutional theory identifies three distinct isomorphic pressures that drive corporate compliance:

- **Coercive Isomorphism:** This occurs when powerful external factors, such as state organs, ministries, or capital market regulators, impose formal mandates on corporations. In the MENA region, coercive pressures are particularly strong due to the top-down nature of economic governance. The introduction of mandatory ESG listing requirements by capital market authorities represents a direct coercive force that requires firms to rapidly adopt standardized sustainability accounting systems.
- **Normative Isomorphism:** This stems from professionalization, shared academic standards, and the adoption of international best practices by global accounting associations, elite consulting firms, and credit rating agencies. As regional professionals gain exposure to international accounting frameworks (such as the GRI, TCFD, and ISSB), they bring these sustainability practices back to their firms, leading to standardized reporting formats across the region.
- **Mimetic Isomorphism:** This arises when organizations encounter structural ambiguity or market uncertainty. In these situations, firms intentionally copy the accounting strategies and behavioural models of highly successful industry peers to minimize risks and appear innovative. Within the MENA accounting environment, smaller or newly listed firms frequently model their sustainability reports directly on the disclosures of state-backed corporate champions (such as Saudi Aramco, SABIC, or SAB) to establish immediate market credibility. (Koen, 2022; Martínez-Ferrero et al., 2024; Villalonga et al., 2025)

2.2.4 Agency Theory and Information Asymmetry

Agency theory addresses the foundational conflicts of interest that arise when ownership and control are separated within a corporation. In a standard principal-agent relationship, managers (the agents) may possess asymmetric information and act opportunistically to maximize their personal utility, sometimes at the direct expense of outside shareholders (the principals).

In the MENA region, agency dynamics are uniquely shaped by highly concentrated ownership structures. Here, the primary agency conflict often shifts from the traditional manager-versus-shareholder dynamic to a majority-versus-minority shareholder conflict (often called the principal-principal problem). This tension is particularly visible when state networks

or prominent family blocks hold dominant equity positions. (Kim & Kim, 2023; McBrayer, 2018; C. Zhang & Wu, 2023)

The MENA literature applies agency theory to ESG accounting in two highly polarized ways:

- The Opportunistic/Agency Cost Perspective: This view argues that extensive, un-audited sustainability expenditures represent a classic agency problem. Corporate managers may use shareholder wealth to finance expensive, low-return green projects primarily to build their personal reputations as social leaders, while hiding core operational inefficiencies behind lengthy sustainability narratives.
- The Monitoring and Mitigating Perspective: Conversely, this perspective treats comprehensive, high-quality ESG accounting as a robust internal control and external monitoring mechanism. By mandating transparent, verifiable disclosures on environmental liabilities, labour practices, and governance ethics, firms reduce information asymmetry. This structural transparency restricts management's ability to hide bad news, limits opportunistic behaviour, and protects the financial interests of minority and foreign investors.

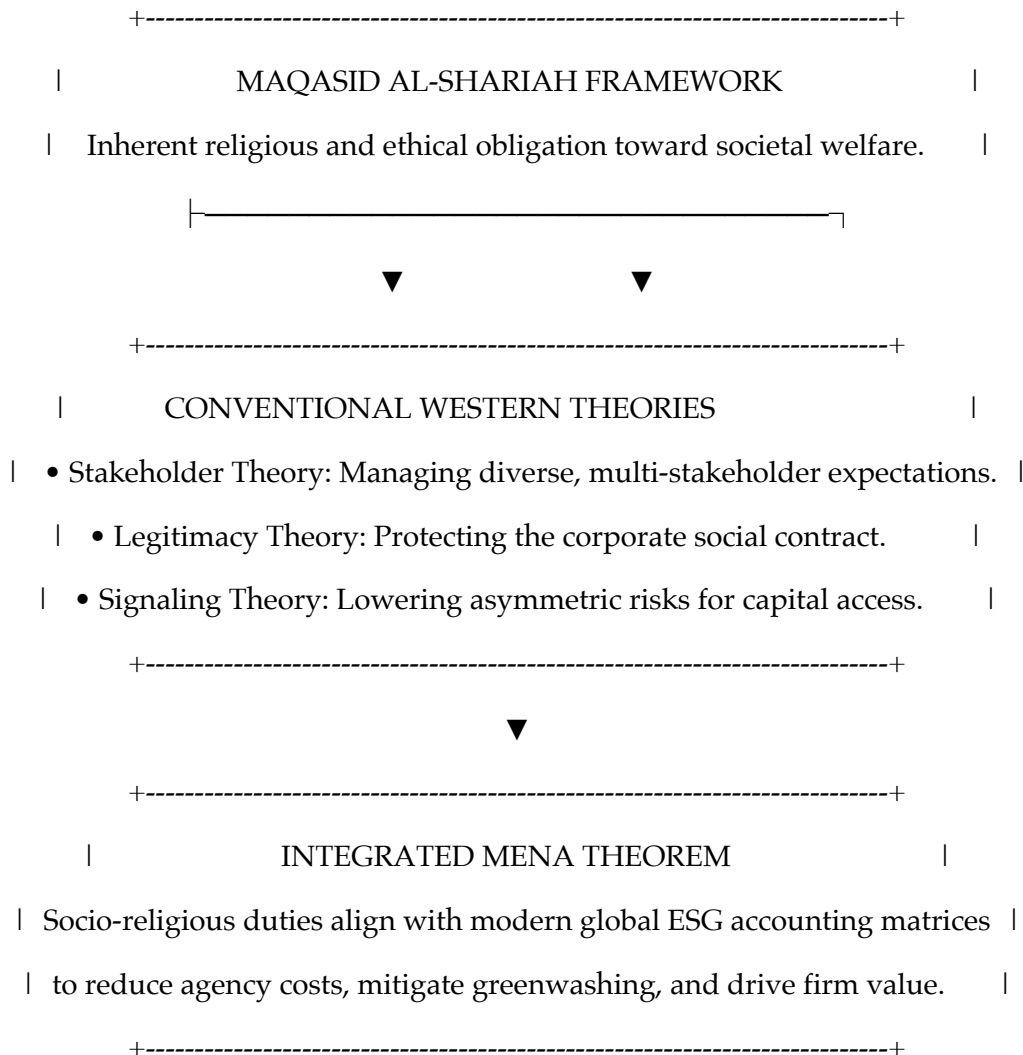
2.2.5 Signalling Theory

Signalling theory is highly valuable for explaining voluntary corporate disclosures in environments characterized by significant information asymmetry. It assumes that the market cannot easily distinguish between high-performing, low-risk firms and low-performing, high-risk ones. To overcome this asymmetry, high-quality firms proactively send credible, costly "signals" to the market to demonstrate their superior operational health, strategic foresight, and risk management capabilities. This allows them to secure a competitive advantage, achieve higher stock valuations, and lower their cost of capital.

In the MENA capital markets, signalling theory explains why premier firms invest heavily in advanced ESG metrics well ahead of mandatory regulatory deadlines. By presenting verified, data-driven ESG reports, these firms send a strong signal of operational resilience to global institutional investors. This signal differentiates them from less transparent regional competitors, demonstrates their readiness for a low-carbon transition, and reassures capital markets that their long-term cash flows face lower systemic risks. (Ali et al., 2022; Chung et al., 2024; Lee et al., 2024)

2.2.6 Theoretical Integration: The Shariah Compliance Overlap

A unique theoretical contribution within the MENA research landscape is the integration of traditional accounting theories with Islamic finance principles, specifically *Maqasid al-Shariah* (the objectives of Islamic law). This socio-religious framework posits that corporate entities operating under Islamic finance guidelines have an inherent duty to preserve the five core elements of human well-being: faith, life, intellect, lineage, and wealth.



As a result, scholars note that for Shariah-compliant firms and Islamic banks across the MENA region, the core concepts of stakeholder and legitimacy theories naturally overlap with these religious values. Under this integrated view, implementing high-fidelity sustainability accounting is not merely a tactical response to external regulatory pressures or institutional forces. Instead, it serves as an authentic expression of the firm's socio-religious accountability to both local communities and the environment. This multi-layered theoretical framework helps explain why the financial outcomes of ESG disclosures can differ substantially between conventional and Islamic financial institutions across the region.

3. Core thematic clusters of the literature

The empirical and analytical scholarship examining Environmental, Social, and Governance (ESG) accounting within the Middle East and North Africa (MENA) region can be

categorized into three dominant, interacting thematic dimensions. Rather than operating in isolation, these clusters intersect to form the broader regional corporate finance ecosystem.

The first theme focuses on the direct relationship between ESG performance and various financial outcomes, tracking how sustainability disclosures impact market value, profitability, and cost of capital. The second theme evaluates the essential internal and external control mechanisms—specifically corporate governance architectures and high-quality external audits—that validate non-financial reporting. The third theme investigates the institutional differences between conventional and Islamic finance structures, exploring how socio-religious values influence sustainable finance across the region. (Murata & Hamori, 2021; Saini et al., 2023)

3.1 Theme 1: The ESG-Performance Nexus (Financial Outcomes and Value Creation)

3.1.1 The Theoretical Tensions: Value-Creation vs. Cost-Incurring Hypotheses

The empirical literature analysing the economic consequences of ESG accounting across the MENA region reveals a deep divergence between two competing theoretical views: the *value-creation hypothesis* and the *cost-incurring hypothesis*.

The value-creation viewpoint, grounded in stakeholder and signalling theories, argues that advanced ESG disclosure functions as a credible indicator of superior operational risk management and long-term strategic foresight. By providing verified, data-driven insights into carbon reduction metrics, labour relations, and ethical governance, high-performing firms proactively reduce information asymmetry. This enhanced transparency reassures domestic and international capital providers, builds market trust, and generates measurable valuation premiums.

Conversely, the cost-incurring viewpoint, supported by agency theory, frames extensive sustainability disclosures within emerging economies as an inefficient allocation of scarce corporate resources. This perspective suggests that in markets characterized by institutional voids and limited investor oversight, corporate managers may deploy shareholder wealth into expensive social or environmental initiatives primarily to boost their personal reputation as ethical leaders. From this view, complex ESG reporting can operate as a managerial distraction that drains operational liquidity, inflates administrative overhead, and ultimately penalizes short-term accounting profitability without delivering tangible economic offsets. (Homroy et al., 2023; Pedersen et al., 2021)

3.1.2 Pillar-Level Granularity and Value Relevance

Recent empirical investigations highlight that analysing ESG as a single, aggregated composite score often obscures critical differences among its individual components. When researchers break down the composite score into its standalone pillars—Environmental (E), Social (S), and Governance (G)—the financial materiality of non-financial accounting shifts noticeably based on the regional institutional context.

In the MENAT (MENA + Turkey) zone, empirical findings show a distinct divergence in how the market reacts to these individual pillars:

| ESG Pillar | Observed Impact in MENA Literature | Primary Theoretical Drivers |
|-------------------|---|--|
| Environmental (E) | Strongly positive relationship with long-term market valuation and risk reduction. | Institutional alignment with National Transformation Plans (e.g., Saudi Vision 2030); mitigation of carbon-dependency penalties. |
| Social (S) | Generally positive impact on corporate reputation and regulatory goodwill. | Alignment with local socioeconomic mandates, labour localization initiatives, and national community development goals. |
| Governance (G) | Mixed, weak, or statistically insignificant relationship with short-term performance. | Widespread ownership concentration, prevalent state equity, and family Blockholders that reduce the immediate valuation impact of standard governance metrics. |

The environmental component has emerged as a major driver of long-term market value. Because the MENA corporate landscape is dominated by heavy industrial, mining, and energy-producing entities, a firm's ability to demonstrate real progress in carbon reduction and resource efficiency directly impacts its market position. Comprehensive environmental disclosure acts as a defensive signalling mechanism that helps shield resource-dependent firms from global carbon penalties and regulatory risks. (Elalfy et al., 2025; Rashwan et al., 2025)

Similarly, the social pillar is generally associated with positive corporate reputation and stronger regulatory goodwill within domestic capital markets. In many MENA nations, corporate social initiatives are closely aligned with sovereign welfare mandates, localized employment targets, and national infrastructural goals. Consequently, extensive reporting on employee development, human rights, and community welfare signals corporate compliance with national strategic priorities, securing institutional legitimacy and political goodwill. (Attia & Almoneef, 2025)

In contrast, the governance pillar frequently yields mixed or statistically weak results within regional empirical models. This lack of significance does not mean that internal governance is unimportant but rather reflects the unique structural realities of the MENA corporate environment. Traditional corporate governance metrics—such as board independence ratios, separation of CEO and chairman roles, and the presence of specialized board committees—were largely developed within Western capital markets characterized by dispersed equity ownership.

In the MENA region, however, listed firms routinely feature highly concentrated ownership structures dominated by state networks, founding family blocks, or sovereign

wealth funds. These large Blockholders often exercise direct, informal oversight that bypasses or overshadows conventional governance channels. As a result, standard governance disclosure metrics often lack the immediate value relevance observed in Western markets, requiring a more tailored analytical approach to understand their true impact. (Abu Khalaf et al., 2025)

3.1.3 Proxy-Dependent Variances and Downside Risk Protection

A key trend in contemporary MENA accounting literature is that the financial impact of ESG strategies depends heavily on the specific metrics used to evaluate corporate performance. Empirical models consistently reveal a sharp contrast between short-term accounting metrics and long-term, market-based valuation proxies.

When researchers utilize short-term accounting indicators—such as Return on Assets (ROA), Return on Equity (ROE), or traditional operating margins—the relationship with ESG scores is frequently documented as neutral, non-linear, or occasionally negative. This pattern aligns with the cost-incurring view, confirming that the significant upfront capital investments required to establish comprehensive environmental tracking, supply-chain monitoring, and formal sustainability disclosure systems create an immediate drag on corporate income statements. Because the financial returns on sustainable infrastructure are structural and realized over long horizons, short-term accounting metrics often capture the immediate expenses of compliance while missing its long-term strategic benefits.

Conversely, when the empirical lens shifts to forward-looking, market-based metrics—such as Tobin's Q, Price-to-Book (PB) ratios, and long-term equity returns—a robust, positive correlation with high-quality ESG disclosure emerges. This finding suggests that capital markets progressively price the strategic value of sustainability into asset valuations. International institutional investors and sophisticated fund managers tend to view robust ESG accounting as a key indicator of lower systemic risk exposure. (Abu Khalaf et al., 2025)

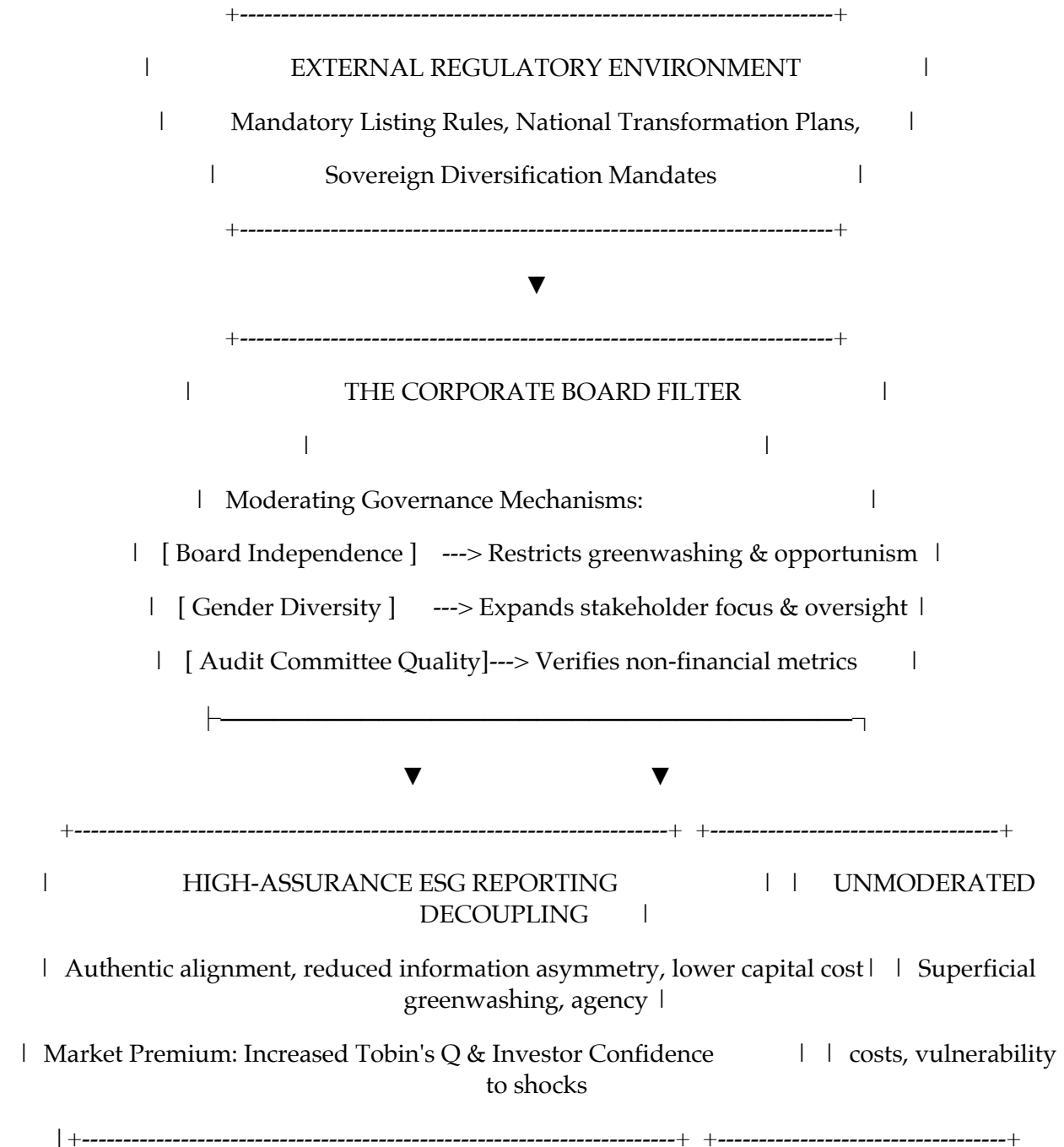
Furthermore, a growing body of research confirms that comprehensive ESG integration serves as an effective mechanism for downside risk protection. During periods of extreme macroeconomic volatility, geopolitical tension, or global commodity shocks, firms with transparent, high-fidelity ESG disclosures experience significantly lower stock price volatility and smaller valuation drops compared to less transparent peers. This capital stabilization occurs because strong ESG reporting reassures investors that the firm maintains a rigorous risk-management framework, insulating its projected cash flows from sudden environmental liabilities, labour disputes, or regulatory fines.

3.2 Theme 2: Corporate Governance and Audit Quality as Critical Moderators

3.2.1 Board Architecture as a Mitigating Factor Against ESG Controversies

Internal corporate governance structures function as crucial defensive barriers and strategic steering mechanisms that directly influence how non-financial disclosures impact market value. Within the unique corporate landscape of the MENA region, board architecture

plays a vital role in determining whether sustainability reporting is integrated into core operations or used merely as a superficial public relations tool.



Empirical research shows that specific board attributes—particularly board independence and gender diversity—are essential for managing and neutralizing the negative financial

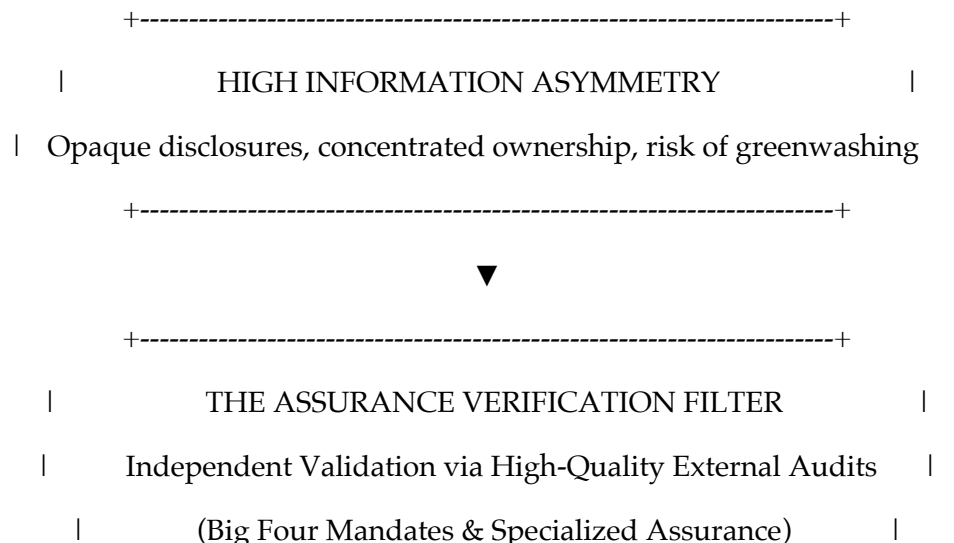
impacts of corporate controversies. In environmental, social, or labour disputes, firms with a higher proportion of independent directors recover their market stability much faster than companies with insider-dominated boards. Independent directors are better positioned to exercise objective oversight, challenge entrenched management, and ensure that immediate corrective actions are taken to preserve institutional legitimacy.

Similarly, the inclusion of women on corporate boards has been shown to improve the quality and breadth of non-financial disclosures. Higher gender diversity is strongly associated with an expanded stakeholder perspective, leading to more comprehensive reporting on environmental risks, human capital development, and workplace ethics. This broader oversight reduces the likelihood of severe ESG controversies and signals to global markets that the firm maintains a modern, balanced governance structure. (Elalfy et al., 2025; Rashwan et al., 2025)

3.2.2 The Mitigating Shield of External Audit Quality

While internal board configurations provide structural direction, external audit quality serves as an essential verification mechanism for ensuring the reliability of non-financial accounting. In the MENA region, where concentrated ownership and family networks can sometimes lead to opaque corporate reporting, the role of independent external assurance is highly critical.

Empirical studies demonstrate that high external audit quality acts as an effective check against managerial opportunism and greenwashing. When a firm's financial and non-financial disclosures are verified by high-quality auditors, such as international Big Four firms, the credibility of its sustainability reporting increases significantly. This independent validation reassures capital providers that the reported ESG data matches the firm's actual operational performance, preventing managers from using vague or exaggerated environmental claims to hide core business weaknesses.



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| CREDIBILITY OPTIMIZATION |

| Verified non-financial data, reduced risk premium, capital access |

-----+

By providing a reliable verification filter, high-quality auditing reduces information asymmetry between corporate insiders and external investors. This increased credibility has a direct, positive impact on capital access. Because investors can trust the accuracy of the firm's risk management metrics, they demand a lower risk premium, which helps reduce both the cost of equity and the cost of debt for highly verified organizations. (Pedersen et al., 2021; Yoo et al., 2024)

3.3 Theme 3: Institutional Variations: Conventional vs. Islamic Finance Landscape

3.3.1 Ideological and Socio-Religious Foundations

A defining characteristic of the corporate sustainability literature within the MENA region is the ongoing investigation into the differences between conventional financial institutions and Islamic banking architectures. These two models operate under distinct ideological, ethical, and operational guidelines, creating unique conditions for the adoption and financial performance of ESG frameworks.

CONVENTIONAL BANKS

ISLAMIC FINANCIAL INSTITUTIONS

| | |
|------------------------------|-------------------------------|
| • Purely market-driven focus | • Value-driven ethical values |
| • Tactical ESG adoption | • Inherent Shariah alignment |
| • Risk-return optimization | • Universal stewardship model |



| LONG-TERM FINANCIAL METRICS |

| Comparable market premiums, |

| enhanced downside stability |

Islamic financial institutions operate under the strict ethical, social, and legal principles of *Shariah*, which inherently mandate a comprehensive model of social justice, moral responsibility, and environmental stewardship. Within this framework, protecting human life, preserving natural resources, and avoiding exploitative financial practices are foundational religious requirements rather than discretionary choices.

Conventional banks, by contrast, traditionally adopt ESG metrics through a purely market-driven lens, utilizing sustainability reporting as a tactical tool to optimize risk-adjusted returns, meet listing requirements, and attract global capital. This creates a compelling area of study for accounting researchers: exploring how these differing underlying motives influence the financial outcomes of sustainability initiatives.

3.3.2 Empirical Realities and Green Finance Convergence

Despite these distinct ideological foundations, extensive regional empirical analysis reveals a surprising convergence in long-term financial outcomes. Studies show that when evaluated over extended horizons, ESG investments yield highly comparable performance benefits across both conventional and Islamic banking models. Both sectors show a clear trend where high ESG scores correlate with increased market valuation, improved asset quality, and greater resilience during economic downturns. (Homroy et al., 2023; Li et al., 2021; Yilmaz, 2022)

This convergence suggests that modern global ESG accounting standards and traditional Islamic financial ethics are highly complementary in practice. The operational risk metrics embedded within Western ESG frameworks align closely with the ethical exclusions and risk-sharing principles mandated by *Shariah* law.

As a result, Islamic financial institutions across the GCC are uniquely positioned to lead the growth of specialized green finance products, such as Green *Sukuk* (Islamic bonds). By blending strict *Shariah* compliance with international sustainability reporting standards, these institutions can efficiently bridge the gap between traditional regional values and global capital markets, offering well-verified, low-risk investment vehicles that appeal to a broad, diverse base of international investors. (Aroul et al., 2022; Prasetyo & Aryani, 2025; X. Zhang & Jung, 2023)

4. Critical gaps and a future research agenda

Despite the rapid accumulation of empirical studies investigating Environmental, Social, and Governance (ESG) accounting across the Middle East and North Africa (MENA) region, a systematic evaluation of this literature reveals several critical gaps. These gaps can be categorized into four primary dimensions: methodological limitations and model specifications, severe data transparency and measurement barriers, systemic geographic imbalances across datasets, and under-explored thematic trajectories.

Identifying these deficiencies is essential not only for assessing the reliability of current empirical findings but also for mapping a rigorous, forward-looking research agenda that matches the evolving global accounting landscape up to the year 2026.

4.1 Methodological and Econometric Limitations

4.1.1 Over-Reliance on Static Estimation Models

A primary methodological vulnerability within the existing body of MENA-centric ESG literature is the heavy reliance on static linear panel regression architectures. A significant portion of published papers deploy standard Ordinary Least Squares (OLS) pool regressions, static fixed-effects (FE), or random-effects (RE) models to map the relationship between non-financial disclosures and corporate financial performance metrics. While these approaches provide a basic foundational overview, they are fundamentally inadequate for capturing the complex dynamics inherent to corporate finance and disclosure decisions.

Static econometric configurations routinely fail to account for severe endogeneity biases that can compromise empirical results. Endogeneity in this domain stems primarily from three distinct sources:

- **Reverse Causality:** While high-quality ESG accounting can drive superior corporate performance by lowering information asymmetry, it is equally plausible that highly profitable firms (with abundant unallocated cash flows) have the luxury to invest heavily in extensive ESG disclosures. Static models fail to distinguish which direction this causality primarily flows.
- **Simultaneity:** Corporate financial strategy and non-financial disclosure programs are frequently decided simultaneously by management boards based on unobserved strategic plans.
- **Omitted Variable Bias:** Unobserved firm characteristics, such as internal managerial talent, corporate culture, or subtle regulatory goodwill, can simultaneously influence both a firm's financial outcomes and its disclosure habits.

To mitigate these endogeneity shocks, future research must shift away from static specifications and adopt dynamic panel data models. Specifically, the utilization of the two-step

System Generalized Method of Moments (GMM) is essential for establishing causal validity. System GMM instruments the endogenous independent variables using lagged differences and levels, purging the unobserved individual effects and providing statistically consistent estimators.

Furthermore, scholars should deploy advanced Panel Quantile Regression designs. Rather than evaluating average corporate effects at the conditional mean, quantile approaches allow researchers to analyse how ESG accounting variations alter financial outcomes across different performance distributions—revealing, for example, whether sustainability disclosure benefits struggling, low-performing firms differently than highly profitable industry leaders. (Galbreath, 2013; Villalonga et al., 2025)

4.1.2 Insufficient Causal and Structural Mapping

The current literature also lacks deeper structural modelling configurations that can untangle the precise pathways through which ESG investments transform into market value. Most regional studies treat the ESG-performance nexus as a direct, unmoderated line, checking whether an independent variable (X) impacts a dependent variable (Y). This approach overlooks the complex internal and external mechanisms that transmit these financial effects.

To advance the discipline, future accounting literature must deploy advanced Structural Equation Modelling (SEM) alongside sophisticated mediation and moderation protocols. Researchers need to explicitly model and test indirect pathways.

For instance, does ESG performance directly maximize market value, or does it operate through intermediate variables such as reducing corporate risk exposure, minimizing cost of capital, optimizing operational efficiency, or maximizing customer brand equity? By treating these intermediate outcomes as explicit mediators within an integrated structural system, researchers can provide a much clearer view of how non-financial actions flow through to financial statements. (Ali et al., 2022; Kim & Kim, 2023; McBrayer, 2018)

4.2 Data Transparency, Measurement, and Reporting Barriers

4.2.1 Commercially Sourced Aggregated Discrepancies

The measurement of ESG variables across the MENA region faces structural limitations due to an over-reliance on international commercial sustainability databases (such as Refinitiv Eikon, Bloomberg, or MSCI ESG ratings). While these aggregators provide broad data points, their underlying rating methodologies are frequently designed for mature Western capital markets, making them less suited for emerging economies.

These external databases often suffer from an acute "size bias" and a "disclosure bias," where large multinational corporations receive high ESG scores primarily because they have the administrative budgets to generate extensive narrative reports, regardless of their actual operational sustainability performance. Conversely, smaller or medium-sized listed firms in the

MENA region may execute substantive local sustainability programs but score poorly due to a lack of specialized reporting teams. (Chung et al., 2024; Doshi et al., 2024)

Furthermore, different commercial providers routinely exhibit low correlation across their ESG ratings for the exact same firm—a phenomenon known as ESG rating divergence. When the same corporation is labelled as high-risk by one aggregator and low risk by another, empirical finance models built on these scores introduce significant noise and measurement errors, leading to inconsistent and non-replicable scientific findings.

4.2.2 The Institutional Imperative for Local Reporting Standards

To resolve this measurement barrier, the future research agenda must focus on analysing localized, hand-collected, and legally verified disclosure frameworks. With regional stock exchanges introducing explicit ESG disclosure guidelines up to 2026, researchers have an opportunity to move past commercial scores and build localized disclosure indices.

These custom indices can be constructed using automated Content Analysis or sophisticated Natural Language Processing (NLP) algorithms applied directly to localized corporate annual reports, corporate governance statements, and standalone sustainability disclosures. By measuring the precise volume, depth, readability, and thematic substance of localized filings against standard global indices (such as the GRI or ISSB S1 and S2 standards), future accounting scholarship can generate highly accurate metrics that reflect genuine regional performance rather than superficial compliance. (Lee et al., 2024; Murata & Hamori, 2021)

4.3 Geographic Imbalances: The GCC vs. Non-GCC Divide

The current body of MENA ESG literature exhibits a critical geographic concentration. A substantial majority of empirical datasets published in top-tier journals focus almost exclusively on the high-income nations of the Gulf Cooperation Council (GCC), with a particular concentration on Saudi Arabia and the United Arab Emirates. While this focus is understandable given the massive capitalization of markets like the Saudi Exchange (Tadawul) and the rapid enforcement of sustainable regulations in the UAE, it creates a skewed understanding of the broader MENA economy.

This stark geographic imbalance introduces a severe selection bias that limits the generalization of current empirical findings. The corporate and macroeconomic realities of the GCC are fundamentally different from those of non-GCC MENA states (such as Egypt, Jordan, Tunisia, and Morocco), as outlined in the comparative breakdown below:

| | | |
|-----------------|---------------------------------|-----------------------------------|
| Macroeconomic & | GCC States (e.g., Saudi Arabia, | Non-GCC MENA States (e.g., Egypt, |
|-----------------|---------------------------------|-----------------------------------|

| Institutional Factor | UAE, Qatar) | Jordan, Morocco) |
|-------------------------|--|--|
| Capital Availability | Hyper-capitalized; extensive state-led funding and financial support. | Capital-scarce; heavily dependent on private banking or international development loans. |
| Sovereign Support | Massive backing via sovereign wealth funds (e.g., PIF, ADIA) to drive sustainability. | Limited public subsidies; ESG investments compete directly with core survival-level operational outlays. |
| Institutional Stability | Exceptionally high; stable exchange rates, low inflation, and long-term national planning. | Elevated macroeconomic volatility; subject to severe currency fluctuations, inflation, and structural adjustment programs. |
| Market Infrastructure | Highly advanced tech integration, rapid mandatory listing enforcement. | Developing market structures; varying enforcement capability across regional regulatory authorities. |

Because of these structural differences, applying the empirical conclusions drawn from wealthy GCC markets to resource-constrained non-GCC firms can lead to flawed policy assumptions. In the GCC, a firm's extensive environmental disclosure is often backed by national wealth and strategic alignment with state goals, making it a reliable signal of long-term stability.

In contrast, a firm in a non-GCC country facing high inflation may find that identical environmental expenditures act as an immediate financial strain that increases financial distress. Future research must address this imbalance by executing cross-border comparative panel designs that explicitly test how macro-level economic realities like state resource availability, sovereign debt levels, and national currency stability moderate the relationship between corporate sustainability actions and micro-level corporate financial outcomes. (Aabo & Giorici, 2023; Colak et al., 2024)

4.4 Under-Explored Thematic Trajectories and Emerging Horizons

4.4.1 The ESG-Audit Interface and Non-Financial Assurance Architecture

As regulatory bodies transition from voluntary guidelines to mandatory ESG reporting frameworks, the role of external verification has emerged as a key area requiring deep empirical investigation. The intersection between sustainability accounting and formal audit quality remains significantly under-explored within the MENA literature.

Historically, researchers have treated audit quality as a basic control variable (such as using a binary Big Four indicator). However, this approach fails to capture the changing nature of corporate assurance up to 2026.

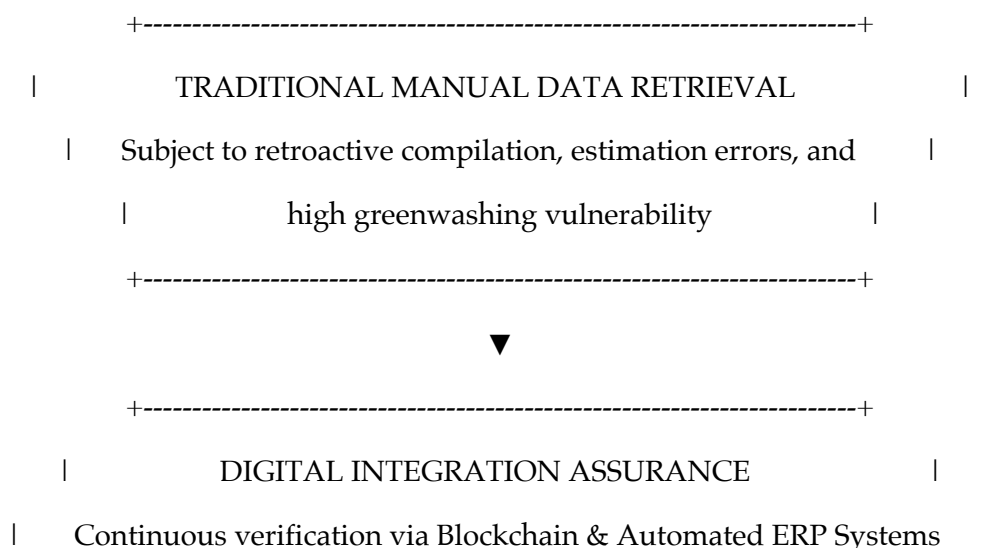
Future studies must look closely into the mechanics of non-financial assurance. Key questions that require empirical exploration include:

- Does the mandatory verification of ESG reports by elite external audit firms systematically reduce the incidence of corporate greenwashing across MENA markets?
- How does the specific expertise of an audit committee—measured by the presence of directors with dedicated sustainability or environmental engineering credentials—alter the precision, readability, and conservative nature of non-financial disclosures?
- What is the direct impact of expanded ESG reporting on traditional financial audit fees? Does the introduction of complex sustainability metrics increase audit risk and require longer verification hours, thereby driving up traditional audit costs? Or does high-quality ESG performance signal a lower overall corporate risk profile that helps decrease standard financial audit fees?

Investigating this interface is vital for understanding how traditional financial control structures adapt to manage non-financial accounting information.

4.4.2 Digital Accounting Integration: Fintech, Blockchain, and Corporate Narrative Transparency

The rapid transformation of accounting departments through advanced digital tools introduces a completely new set of variables that have yet to be integrated into mainstream MENA sustainability research. The deployment of financial technology (Fintech), enterprise resource planning (ERP) cloud engines, and ledger technologies like blockchain is fundamentally changing how ESG data is collected, tracked, and reported. (Feng & Wu, 2023; Tohang et al., 2024)



| COST OF EQUITY | COST OF DEBT |
|---|---|
| <ul style="list-style-type: none"> • Evaluated by global/local equity portfolio managers • Focuses on long-term growth potential & market upsides | <ul style="list-style-type: none"> • Evaluated by commercial banks & debt syndicates • Focuses on default risk, collateral, & cash flow |

Equity investors focus on long-term growth potential and market reputation, often rewarding strong environmental performance with higher valuation multiples. Conversely, debt providers (such as commercial banks and bond syndicates) are primarily concerned with default risk, collateral protection, and short-term cash flow stability. (Dabbebi et al., 2022; Walker, 2022)

In emerging markets like the MENA region, lenders may view massive investments in unproven green projects as a cash drain that increases short-term liquidity risks, potentially leading them to demand higher interest rates despite a firm's high sustainability rating. Future studies must develop distinct, parallel models to isolate how ESG disclosures independently impact the cost of equity (using models like the implied cost of capital approach) versus the cost of debt (measured via primary loan spreads or credit ratings), particularly across capital-intensive sectors like energy and manufacturing. (Barman & Mahakud, 2025; Eliwa et al., 2023)

4.5 Section Summary and Consolidated Roadmap

In summary, while the initial phase of MENA-centric ESG literature has successfully established that sustainability disclosures are no longer irrelevant to corporate finance, the discipline has reached a critical turning point. To bridge the gaps identified in this section, researchers must move beyond basic, direct correlation models and commercial scores.

By adopting dynamic econometric methodologies, correcting geographic imbalances, focusing on localized verification standards, and investigating the crucial roles of modern auditing and digital accounting tools, the next generation of accounting scholarship can provide the precise, evidence-based insights needed to guide the region through its ongoing structural economic transition.

5. Conclusion and policy recommendations

5.1 Synthesis of Key Findings

This systematic literature review has comprehensively examined, categorized, and critiqued the expanding body of academic scholarship focusing on Environmental, Social, and

Governance (ESG) accounting and finance within the Middle East and North Africa (MENA) region up to the year 2026. By untangling the empirical and theoretical threads of the extant literature, this study provides a unified analytical assessment of how non-financial disclosures alter the corporate finance landscape in emerging, resource-dependent market economies.

The structural deconstruction of the literature reveals three definitive conclusions:

- First, the traditional debate between the value-creation and cost-incurring hypotheses is highly dependent on the choice of performance metrics and the specific sustainability pillars examined. While short-term accounting metrics (ROA and ROE) frequently capture the immediate, capital-intensive drag of establishing sustainable tracking infrastructure, forward-looking market proxies (Tobin's Q and Price-to-Book ratios) confirm that capital markets systematically price high-quality ESG disclosures as a structural signal of long-term operational resilience. Furthermore, disaggregating the composite ESG metrics demonstrates that the Environmental (E) and Social (S) components deliver immediate risk-reduction premiums and strategic value relevance, whereas the Governance (G) component yields mixed financial outcomes due to the widespread presence of highly concentrated ownership blocks and state equity networks across the region.
- Second, internal board architecture and external audit qualities function as essential moderating filters that dictate the financial success of sustainability reporting. Strong internal governance mechanisms—specifically elevated board independence and gender diversity—operate as vital organizational steering tools that successfully neutralize market value destruction during periods of corporate or environmental controversy. Simultaneously, high external audit quality, particularly through the deployment of Big Four audit mandates, serves as a crucial external validation mechanism. Independent verification reduces information asymmetry, suppresses management incentives to engage in opportunistic decoupling (greenwashing), and establishes the reporting credibility necessary to secure a lower cost of debt and equity capital from international fund managers.
- Third, the MENA region features a unique dual-banking landscape where conventional financial institutions co-exist with Islamic banking architectures. While these models stem from fundamentally different ideological roots—with Islamic banks guided by the socio-religious accountability metrics of *Maqasid al-Shariah*—empirical realities demonstrate a powerful convergence in long-term green finance performance. The ethical and asset-sharing principles of *Shariah* law naturally complement modern global ESG risk mitigation criteria, enabling the strategic deployment of innovative sustainable instruments, such as Green *Sukuk*, which successfully bridge regional ethical values with international capital frameworks.

5.2 Policy and Regulatory Recommendations

The structural insights compiled across this review carry vital, actionable implications for diverse regulatory, corporate, and capital market stakeholders navigating the economic transformations of the MENA territory.

5.2.1 For Capital Market Authorities and Stock Exchanges

Regional regulatory bodies (such as the Saudi Capital Market Authority, the UAE Securities and Commodities Authority, and the Egyptian Financial Regulatory Authority) must transition away from fragmented, discretionary guidelines toward a fully synchronized, mandatory ESG disclosure framework. Stock exchanges should accelerate the formal adoption of international accounting benchmarks, specifically the International Sustainability Standards Board (ISSB) S1 and S2 standards, to ensure cross-border comparability.

Furthermore, regulators should institute explicit penalties and "comply-or-explain" mandates targeting narrative disclosure omissions. This regulatory tightening is essential to eliminate the widespread "disclosure bias" where firms provide lengthy, superficial marketing narratives instead of precise, quantified metrics.

5.2.2 For Institutional Investors and Asset Managers

Domestic and international fund managers should look past aggregated, composite commercial ESG scores, which are frequently distorted by firm size and data availability biases. Investment protocols should explicitly incorporate pillar-level analysis, prioritize the verified environmental risk metrics of carbon-intensive firms and tracking the structural independence of audit committees.

Lenders and debt syndicates within the region should actively expand the issuance of sustainability-linked loans, conditioning interest rate discounts on the independent verification of localized ESG targets, thereby driving down the cost of debt for truly sustainable corporate actors.

5.2.3 For Corporate Executives and Chief Financial Officers

Corporate leaders across the MENA region must reframe ESG accounting from an administrative compliance cost or a public relations exercise into a core value-maximizing corporate strategy. Management should invest heavily in automated enterprise resource planning (ERP) systems and specialized digital tools to enable continuous, real-time tracking of resource usage, labor demographics, and governance ethics.

To bridge the regional governance gap, boards must proactively incorporate independent, sustainability-certified directors into their audit and risk committees, ensuring that ESG strategies are authentically aligned with national transformation agendas rather than deployed as a defensive decoupled shield.

5.3 Limitations of this Review

While this study delivers a highly rigorous, multi-theoretical synthesis of the regional literature, its conclusions must be viewed alongside certain inherent boundaries:

- **Database and Language Boundaries:** The protocol restricted its search to high-ranked, peer-reviewed academic journals indexed within Scopus, Web of Science, and ScienceDirect, published exclusively in the English language. Consequently, localized, non-indexed regional journals or academic monographs written in Arabic were omitted, potentially excluding specific country-level policy details.
- **Geographic Concentration Bias:** Despite efforts to capture the full breadth of the MENA region, the underlying empirical corpus remains heavily skewed toward wealthy, resource-rich GCC economies. The relative scarcity of comprehensive financial data and structured reporting across non-GCC nations limits the immediate application of certain value-relevance conclusions to capital-scarce emerging states.
- **Methodological Heterogeneity:** The reviewed literature contains significant variations in how independent variables are measured, with different authors relying on divergent commercial scores (e.g., Refinitiv vs. Bloomberg vs. hand-collected indices). This measurement divergence introduces unavoidable statistical noise that prevents the execution of a formal quantitative meta-analysis, requiring instead a systematic qualitative and analytical synthesis.

5.4 Avenues for Future Research

To maintain academic momentum and match the rapid structural updates observed up to 2026, future accounting scholarship must focus on four critical areas:

- **Econometric Correction of Endogeneity:** Future empirical designs must move past static linear configurations and adopt dynamic panel estimations, specifically utilizing two-step System GMM and Panel Quantile Regressions, to fully isolate bidirectional causality and eliminate unobserved corporate variable biases.
- **The Digitalization of Sustainability Accounting:** Scholars should investigate how the integration of financial technology, cloud-based carbon tracking, and blockchain ledger frameworks alters the verification, traceability, and market credibility of non-financial corporate disclosures.
- **Advanced Auditing and Non-Financial Assurance:** Deep-dive investigations are needed to trace the economic consequences of independent third-party ESG verification. Researchers should analyse how the specific expertise of audit committees and the mandate of specialized sustainability assurance providers impact traditional audit fee structures and corporate greenwashing behaviour.

- Cross-Border Macro-Institutional Moderation: Future research should deploy extensive cross-country panel datasets that explicitly test how national macroeconomic factors—such as sovereign wealth fund presence, currency volatility, national carbon intensities, and variations in legal enforcement strength—moderate the micro-level relationship between corporate sustainability disclosure and long-term firm valuation.

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